**Timeline of Events: 1861–1913**

1861 War debts are far greater than tariff and excise tax revenues. Congress passes a federal income tax law that is never enacted because it is a direct tax on property, which the Constitution forbids.

1862 Congress amends the law of 1861 and passes the first federal income tax law. It is the first tax that is based on people’s ability to pay.

1864 Federal income tax rates are increased. People who make between $600 and $5,000 must pay a 5 percent tax to the government. People who make over $10,000 must pay 10 percent.

1872 The federal income tax is repealed.

1894 A new version of the federal income tax is passed by Congress requiring people to pay a flat rate of 2 percent of their incomes.

1895 The Supreme Court declares the 2 percent income tax unconstitutional because the Constitution requires any direct tax to be divided among the states according to their populations.

1909 The Sixteenth Amendment is proposed. It allows the federal government to tax citizens’ incomes without regard for the population of the states.

1913 The Sixteenth Amendment is ratified.

**Understanding Taxes**